Ratlou Local Municipality
Annual Financial Statements
for the year ended 30 June 2018
Auditor General of South Africa

General Information

Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality
Executive committee	
Mayor	Modise T
	Seabelo O (Speaker)
	Phaedi M (Member of the executive committee)
	Godi L (Member of the executive committee)
	Seitshiro D (Member of the executive committee)
	Badirwang K (Member of the executive committee)
	Ntwe T (Chairperson Sec 79 MSA)
Councillors	Dala M
	Boikanyo M
	Dithobiso D
	Gadlutwe G
	Leepo K
	Mabaso K
	Matebele A
	Mikalane K
	Moalusi F
	Mokgope G
	Mokone K
	Mongala M
	Mosikare S
	Mothibedi E
	Motlagodisa K
	Newson O
	Chipane S
	Pebe K
	Ramosidi A
	Seane E
	Sefawo O
Grading of local authority	Grade 1
Capacity of local authority	Low
Municipal demarcation code	NW381
Acting Chief Financial Officer (ACFO)	Mashinyana G
Accounting Officer	Molefe MJ
Registered office	Delareyville Road Next to Setlagole Library Setlagole 2772

General Information

Postal address	Private Bag X209 Madibogo 2772
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Leepile Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Report of the Accounting Officer

for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The main business operations of the municipality is to engage in local governance activities. These include planning and promotion of integrated development planning, land, economic and environmental development. As part of the revenue generation, the municiplity levies rates and taxes on all properties in private hands.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality's total assets exceeded its liabilities by R 394 721 567.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Auditors

Auditor General of South Africa will continue in office for the next financial period.

The annual financial statements set out on pages 4 to 71, which have been prepared on the going concern basis, were approved by the council on 30 August 2018 and were signed on its behalf by:

Molefe MJ
Acting Municipal Manager

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	7	749 053	788 266
Operating lease asset		6 227	3 205
Receivables from exchange transactions	4&6	2 746 648	1 873 952
Receivables from non-exchange transactions	5&6	15 203 819	12 924 814
VAT receivable	8	8 343 845	20 411 674
Cash and cash equivalents	3	45 107 972	40 160 989
		72 157 564	**76 162 900**
Non-Current Assets			
Investment property	9	21 400 000	20 200 000
Property, plant and equipment	10	332 870 693	316 828 292
Intangible assets	11	199 681	323 054
		354 470 374	**337 351 346**
Total Assets		**426 627 938**	**413 514 246**
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	18 351 514
Payables from exchange transactions	13	20 346 762	17 745 775
Consumer deposits	14	17 333	17 333
Employee benefit obligation	17	51 000	79 000
Unspent conditional grants and receipts	15	8 367 860	15 349 496
Provisions	16	1 135 416	1 065 297
		29 918 371	**52 608 415**
Non-Current Liabilities			
Employee benefit obligation	17	1 988 000	1 332 000
Total Liabilities		**31 906 371**	**53 940 415**
Net Assets		**394 721 567**	**359 573 831**
Accumulated surplus		394 721 567	359 573 831

* See Note 47

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	607 157	276 254
Rental of facilities and equipment	20	1 874 054	1 199 275
Interest received (trading)		2 383 507	4 027 338
Insurance claims received		1 658 487	4 950
Other income		442 463	350 422
Interest received (investment)	22	3 839 520	4 162 545
Fair value adjustments		1 200 000	510 000
Total revenue from exchange transactions		**12 005 188**	**10 530 784**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	15 735 540	16 208 894
Transfer revenue			
Government grants & subsidies	24	145 230 261	149 399 154
Fines, penalties and forfeits		153 750	356 600
Total revenue from non-exchange transactions		**161 119 551**	**165 964 648**
Total revenue		**173 124 739**	**176 495 432**
Expenditure			
Employee related costs	25	(58 878 967)	(57 491 269)
Remuneration of councillors	26	(11 256 108)	(9 941 242)
Depreciation and amortisation	27	(11 368 259)	(11 408 780)
Finance costs	28	(934 296)	(2 348 158)
Debt impairment	29	(2 610 264)	(1 377 670)
Contracted services	30	(6 277 671)	(6 062 375)
Loss on disposal of assets and liabilities		(62 815)	(20 388)
Actuarial losses		(307 482)	(38 894)
General expenses	31	(46 281 127)	(43 579 642)
Total expenditure		**(137 976 989)**	**(132 268 418)**
Surplus for the year		**35 147 750**	**44 227 014**

* See Note 47

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	315 341 442	315 341 442
Adjustments		
Correction of errors	5 375	5 375
Balance at 01 July 2016 as restated*	**315 346 817**	**315 346 817**
Changes in net assets		
Surplus for the year	44 227 014	44 227 014
Total changes	44 227 014	44 227 014
Balance at 01 July 2017	**359 573 817**	**359 573 817**
Changes in net assets		
Surplus for the year	35 147 750	35 147 750
Total changes	35 147 750	35 147 750
Balance at 30 June 2018	**394 721 567**	**394 721 567**

* See Note 47

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		29 158 617	7 178 645
Grants		138 248 625	161 005 003
Interest income		3 839 520	4 162 545
		171 246 762	172 346 193
Payments			
Employee costs		(69 814 557)	(67 142 405)
Suppliers		(49 849 310)	(45 576 554)
Finance costs		(934 296)	(2 348 158)
		(120 598 163)	(115 067 117)
Net cash flows from operating activities	34	**50 648 599**	**57 279 076**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(27 350 102)	(57 109 704)
Purchase of other intangible assets	11	-	(3 300)
Net cash flows from investing activities		**(27 350 102)**	**(57 113 004)**
Cash flows from financing activities			
Increase/(repayment) of other financial liabilities		(18 351 514)	(18 235 040)
Net cash flows from financing activities		**(18 351 514)**	**(18 235 040)**
Net increase/(decrease) in cash and cash equivalents		**4 946 983**	**(18 068 968)**
Cash and cash equivalents at the beginning of the year		40 160 989	58 229 957
Cash and cash equivalents at the end of the year	3	**45 107 972**	**40 160 989**

* See Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	-	-	**-**	607 157	**607 157**	46.1
Rental of facilities and equipment	2 160 170	40 000	**2 200 170**	1 874 054	**(326 116)**	46.2
Interest received (trading)	-	-	**-**	2 383 507	**2 383 507**	46.3
Insurance claims received	-	-	**-**	1 658 487	**1 658 487**	46.4
Other income	1 562 190	(340 000)	**1 222 190**	442 463	**(779 727)**	46.5
Interest received - investment	3 700 000	400 000	**4 100 000**	3 839 520	**(260 480)**	46.6
Total revenue from exchange transactions	**7 422 360**	**100 000**	**7 522 360**	**10 805 188**	**3 282 828**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 269 204	374 000	**16 643 204**	15 735 540	**(907 664)**	46.7
Transfer revenue						
Government grants and subsidies	138 532 000	(6 378 005)	**132 153 995**	145 230 261	**13 076 266**	46.8
Fines	70 000	(44 000)	**26 000**	153 750	**127 750**	46.9
Total revenue from non-exchange transactions	**154 871 204**	**(6 048 005)**	**148 823 199**	**161 119 551**	**12 296 352**	
Total revenue	**162 293 564**	**(5 948 005)**	**156 345 559**	**171 924 739**	**15 579 180**	
Expenditure						
Personnel	(65 194 761)	33 766	**(65 160 995)**	(58 878 967)	**6 282 028**	46.10
Remuneration of councillors	(10 254 450)	(700 000)	**(10 954 450)**	(11 256 108)	**(301 658)**	46.11
Transfer payments - Other	(2 500 000)	(6 789 950)	**(9 289 950)**	-	**9 289 950**	46.18
Depreciation and amortisation	(8 600 000)	(3 000 000)	**(11 600 000)**	(11 368 259)	**231 741**	46.12
Finance costs	(1 077 945)	-	**(1 077 945)**	(934 296)	**143 649**	46.13
Debt Impairment	(3 744 400)	-	**(3 744 400)**	(2 610 264)	**1 134 136**	46.14
Repairs and maintenance	(4 766 000)	(2 175 000)	**(6 941 000)**	(7 770 324)	**(829 324)**	46.15
Contracted services	(6 195 808)	(11 317 277)	**(17 513 085)**	(6 277 671)	**11 235 414**	46.16
General expenses	(22 948 150)	(713 913)	**(23 662 063)**	(38 510 803)	**(14 848 740)**	46.17
Total expenditure	**(125 281 514)**	**(24 662 374)**	**(149 943 888)**	**(137 606 692)**	**12 337 196**	
Operating surplus	**37 012 050**	**(30 610 379)**	**6 401 671**	**34 318 047**	**27 916 376**	
Loss on disposal of assets and liabilities	-	-	**-**	(62 815)	**(62 815)**	46.19
Fair value adjustments	-	-	**-**	1 200 000	**1 200 000**	46.20
Actuarial losses	-	-	**-**	(307 482)	**(307 482)**	46.21
	-	**-**	**-**	**829 703**	**829 703**	
Surplus before taxation	**37 012 050**	**(30 610 379)**	**6 401 671**	**35 147 750**	**28 746 079**	
Surplus for the year	**37 012 050**	**(30 610 379)**	**6 401 671**	**35 147 750**	**28 746 079**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discount rate assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest rates.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occured, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement and long-term benefit obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality uses the prime interest rate to discount future cash flows.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows: [The criteria depends on the extent to which the assets are used for service delivery]

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 10).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Accounting Policies

1.4 Property, plant and equipment (continued)

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Bins and containers	Straight line	5 -10 years
Buildings	Straight line	30 years
Community assets	Straight line	30 years
Computer equipment	Straight line	3 - 5 years
Emergency equipment	Straight line	5 - 15 years
Furniture and fittings	Straight line	7 - 10 years
Infrastructure assets	Straight line	3 - 40 years
Landfill site	Straight line	30 years
Motor vehicle	Straight line	3 - 20 years
Office equipment	Straight line	5 - 7 years
Other property plant and equipment	Straight line	5 - 15 years
Refuse removal equipment	Straight line	5 years

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

1.4 Property, plant and equipment (continued)

Assets of the property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as 'decommissioning, rehabilitation and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets to their residual values. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of items of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	1 - 10 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets are included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.7 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.7 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.8 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants will consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

1.10 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

1.13 Employee benefits (continued)

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of the employees rendering 10 yearscontinous service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses, which shall all be recognised immediately;

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Accounting Policies

1.14 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

Where the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. .

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made.

1.16 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, are exchange transactions and are accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.20 Leases

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.21 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note .

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.29 Events after reporting date (continued)

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB’s Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has early adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2018 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 20: Related parties

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of this standard is currently being assessed.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity’s financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

The impact of this interpretation is currently being assessed.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB’s Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Figures in Rand	2018	2017

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	70 360	-
Bank balances	3 029 106	38 091 435
Short-term deposits	42 008 506	2 069 155
Other cash and cash equivalents	-	399
	45 107 972	**40 160 989**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank- Public Sector Cheque Account - 620-236-3042	4 062 546	39 119 712	15 252 237	3 005 015	38 085 711	14 748 243
First National Bank- Business Money Market Investment- 621-5913-8299	5 289	5 209	208	5 289	5 208	208
First National Bank- Money Market Demand Deposit -620-3270-9993	5 201	5 042	120	5 124	4 965	43
First National Bank- Call Account- 626-005-27975	40 988 556	256 684	39 770 673	40 988 556	256 684	39 770 673
First National Bank- Call Account DBSA- 626-005-30259	1 009 537	1 802 294	3 705 513	1 009 537	1 802 298	3 705 513
Total	**46 071 129**	**41 188 941**	**58 728 751**	**45 013 521**	**40 154 866**	**58 224 680**

4. Receivables from exchange transactions

Other receivables	150 898	69 076
Consumer receivables - rental	2 474 560	1 687 350
Consumer receivables - sundry	117 526	117 526
Consumer recievables - electricity	3 664	-
	2 746 648	**1 873 952**

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security

Trade and other receivables impaired

As of 30 June 2018, trade and other receivables of R 2 739 026 (30 June 2017: R 1 873 952) were impaired and provided for.

The amount of the provision was R (2 790 241) as of 30 June 2018 (30 June 2017: R (2 015 539)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	2 057 833	2 015 539
Provision for impairment	-	42 294
	2 057 833	**2 057 833**

Figures in Rand	2018	2017

5. Receivables from non-exchange transactions

Consumer receivables - rates	15 029 205	12 823 017
Consumer receivables - traffic fines	174 614	101 797
	15 203 819	**12 924 814**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange were pledged as security

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 15 180 569 (30 June 2017: R 12 924 814) were impaired and provided for.

The amount of the provision was R (10 859 570) as of 30 June 2018 (30 June 2017: R (9 024 008)).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	10 359 101	9 024 008
Provision for impairment	-	1 103 089
Amounts written off as uncollectible	-	232 004
	10 359 101	**10 359 101**

6. Consumer debtors disclosure

Gross balances		
Consumer receivables - rates	25 093 310	21 100 513
Consumer receivables - rentals	4 831 172	3 269 260
Consumer receivables - sundry	117 526	117 526
Consumer receivables - staff debtors	437 293	433 629
Consumer receivables - traffic fines	970 079	848 309
	31 449 380	**25 769 237**
Less: Allowance for impairment		
Consumer receivables - rates	(10 064 105)	(8 277 496)
Consumer receivables - rentals	(2 356 612)	(1 581 910)
Consumer receivables - staff debtors	(433 629)	(433 629)
Consumer receivables - traffic fines	(795 465)	(746 512)
	(13 649 811)	**(11 039 547)**
Net balance		
Consumer receivables - rates	15 029 205	12 823 017
Consumer receivables - rentals	2 474 560	1 687 350
Consumer receivables - sundry	117 526	117 526
Consumer recievables - staff debtors	3 664	-
Consumer receivables - traffic fines	174 614	101 797
	17 799 569	**14 729 690**

Figures in Rand	2018	2017

6. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	288	256
31 - 60 days	16 676	14 804
61 - 90 days	1 752	1 555
91 - 120 days	363	322
121 - 365 days	23 749 629	21 083 576
> 365 days	(10 064 105)	(8 277 496)
	13 704 603	**12 823 017**
Rentals		
Current (0 -30 days)	526 195	386 759
31 - 60 days	114 884	84 441
61 - 90 days	101 903	74 900
91 - 120 days	100 668	73 992
121 - 365 days	3 604 256	2 649 168
> 365 days	(2 356 612)	(1 581 910)
	2 091 294	**1 687 350**
Sundry		
Current (0 -30 days)	25 111	25 111
31 - 60 days	18 514	18 514
61 - 90 days	11 959	11 959
91 - 120 days	8 932	8 932
121 - 365 days	13 838	13 838
> 365 days	39 172	39 172
	117 526	**117 526**
Staff debtors		
121 - 365 days	437 293	433 629
> 365 days	(433 629)	(433 629)
	3 664	**-**
Traffic fines		
Current (0 -30 days)	16 300	16 300
31 - 60 days	20 600	20 600
61 - 90 days	19 900	19 900
91 - 120 days	913 279	791 509
> 365 days	(795 465)	(746 512)
	174 614	**101 797**
Reconciliation of allowance for impairment		
Balance at beginning of the year	11 039 547	9 662 159
Contributions to allowance	-	1 377 388
	11 039 547	**11 039 547**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Inventories

	2018	2017
Consumable stores	331 596	788 266
Maintenance materials	417 457	-
	749 053	**788 266**

Inventory pledged as security

No inventory was pledged as security.

8. VAT receivable

	2018	2017
VAT	8 343 845	20 411 674

9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Setlagole Business Complex	21 400 000	-	21 400 000	20 200 000	-	20 200 000

Reconciliation of investment property -30 June 2018

	Opening balance	Fair value adjustments	Total
Setlagole Business Complex	20 200 000	1 200 000	21 400 000

Reconciliation of investment property - 30 June 2017

	Opening balance	Fair value adjustments	Total
Setlagole Business Complex	19 690 000	510 000	20 200 000

Pledged as security

Investment property has not been pledged as security.

Details of valuation

The effective date of the revaluations was Saturday, 30 June 2018. Revaluations were performed by an independent valuer, Mr Soza Matevula [registration number 4646/2], of Meba properties and valuation services. Mr Soza Matevula is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use and the South African property valuers association's standard method of valuation.

These assumptions are based on current market conditions.

10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bins and containers	64 933	(21 845)	43 088	64 933	(15 465)	49 468
Buildings	31 117 871	(8 794 379)	22 323 492	29 889 801	(7 809 384)	22 080 417
Community assets	178 694 621	(33 304 336)	145 390 285	170 056 442	(28 939 760)	141 116 682
Computer equipment	5 028 968	(3 585 562)	1 443 406	4 994 940	(2 964 366)	2 030 574
Emergency equiment	60 185	(57 353)	2 832	61 086	(56 406)	4 680
Furniture and fixtures	3 779 647	(2 909 918)	869 729	3 780 598	(2 571 618)	1 208 980
Infrastructure	163 868 138	(9 978 796)	153 889 342	148 801 317	(7 357 287)	141 444 030
Motor vehicles	15 765 268	(7 827 214)	7 938 054	14 314 589	(6 553 407)	7 761 182
Office equipment	385 151	(362 674)	22 477	405 790	(368 801)	36 989
Other property, plant and equipment	2 039 273	(1 091 777)	947 496	1 982 859	(889 768)	1 093 091
Waste removal equipment	11 952	(11 460)	492	11 952	(9 753)	2 199
Total	**400 816 007**	**(67 945 314)**	**332 870 693**	**374 364 307**	**(57 536 015)**	**316 828 292**

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Bins and containers	49 468	-	-	(6 380)	43 088
Buildings	22 080 364	1 228 070	-	(984 942)	22 323 492
Community	141 116 682	8 631 347	-	(4 357 744)	145 390 285
Emergency equipment	4 680	-	(1)	(1 847)	2 832
Furniture and fixtures	1 209 017	-	-	(339 288)	869 729
Computer equipment	2 030 628	106 345	(27 093)	(666 474)	1 443 406
Infrastructure	141 444 030	15 066 819	-	(2 621 507)	153 889 342
Motor vehicles	7 761 182	2 660 379	(434 981)	(2 048 526)	7 938 054
Office equipment	36 989	-	(739)	(13 773)	22 477
Other property, plant and equipment	1 093 042	57 155	-	(202 701)	947 496
Waste removal equipment	2 199	-	-	(1 707)	492
	316 828 281	**27 750 115**	**(462 814)**	**(11 244 889)**	**332 870 693**

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Bins and containers	55 850	-	-	(6 382)	49 468
Buildings	22 735 658	329 531	-	(984 772)	22 080 417
Community	131 302 432	14 147 832	-	(4 333 582)	141 116 682
Emergency equipment	7 533	-	-	(2 853)	4 680
Furniture and fixtures	1 259 898	279 099	(134)	(329 883)	1 208 980
IT equipment	2 512 905	354 092	(25 348)	(811 075)	2 030 574
Infrastructure	102 985 185	41 102 058	-	(2 643 213)	141 444 030
Motor vehicles	8 890 225	1 331 341	(532 003)	(1 928 381)	7 761 182
Office equipment	69 683	-	(3 712)	(28 982)	36 989
Other property, plant and equipment	1 049 886	268 455	(8 191)	(217 059)	1 093 091
Waste removal equipment	3 906	-	-	(1 707)	2 199
	270 873 161	**57 812 408**	**(569 388)**	**(11 287 889)**	**316 828 292**

Figures in Rand	2018	2017

10. Property, plant and equipment (continued)

Pledged as security

Property, plant and equipment have not been pledged as security:

Property, plant and equipment in the process of being constructed or developed

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Construction of Madibogo Taxi Rank Phase 2	174 831	174 831
Still minor work to be done . Had issues with contractors. Practical completion.		
Driving License Testing Yard	615 267	615 267
Designs done. No construction yet due to budget constraints.		
Installation of High Mast Phase in Madibogo / Tlhaping / Madibogopan / Setlagole	1 837 195	1 837 195
Installation was completed in the prior financial year, the municipality is waiting for eskom to supply energy.		
Madibogopan Sports Ground	730 072	730 072
contract terminated due to non-performance by the appointed contractor.		
	3 357 365	**3 357 365**

Reconciliation of Work-in-Progress 30 June 2018

	Included within Infrastructure	Included within Community	Included within Buildings	Total
Opening balance	88 998 314	41 875 415	635 965	131 509 694
Additions/capital expenditure	15 066 818	7 787 406	1 228 070	24 082 294
Transferred to completed items	-	(2 557 634)	-	(2 557 634)
	104 065 132	**47 105 187**	**1 864 035**	**153 034 354**

Reconciliation of Work-in-Progress 30 June 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	49 846 815	29 937 510	635 965	80 420 290
Additions/capital expenditure	39 892 127	11 937 905	-	51 830 032
Transferred to completed items	(740 628)	-	-	(740 628)
	88 998 314	**41 875 415**	**635 965**	**131 509 694**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Repairs of office equipment	633 633	67 597
Repairs of building	1 474 593	1 446 220
Repairs of waste removal equipment	-	16 425
Repairs of motor vehicles	566 768	451 166
Repairs of computer equipment	95 992	26 114
Repairs of infrastucture assets	4 819 413	4 551 628
Repairs of other assets	105 000	178 107
Repairs of emergency equipment	74 925	-
	7 770 324	**6 737 257**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand	2018	2017

11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 543 924	(1 344 243)	199 681	1 543 924	(1 220 870)	323 054

Reconciliation of intangible assets - 30 June 2018

	Opening balance	Amortisation	Total
Computer software	323 054	(123 373)	199 681

Reconciliation of intangible assets -30 June 2017

	Opening balance	Additions	Amortisation	Total
Computer software	594 349	3 300	(274 595)	323 054

Pledged as security

Intangible assets have not been pledged as security.

12. Other financial liabilities

	2018	2017
At amortised cost		
DBSA loan	-	18 351 514

A loan to the amount of R 36.3 million was approved for the frontloading of the Ratlou Local Municipality's MIG programme. The Loan will be secured by pledging R 39 979 468 million of the financial year 2016/2017 and financial year 2017/2018 MIG allocations as per Division of Revenue Act 2015.

Ratlou Local Municipality has ceded all its rights, titles and interest in the ceded account to Development Bank of Southern Africa Limited (DBSA) as security for the due fulfilment by Ratlou Local Municipality of its obligation towards DBSA in terms of the DBSA facility agreement.

The loan has been settled within the year under review.

	2018	2017
Current liabilities		
At amortised cost	-	18 351 514

13. Payables from exchange transactions

	2018	2017
Trade payables	2 419 646	1 711 793
Accrued bonus	2 044 905	1 918 143
Accrued leave	4 103 967	4 172 450
Other payables	2 270 105	947 970
Retention payables	9 508 139	8 995 419
	20 346 762	**17 745 775**

14. Consumer deposits

	2018	2017
Rental	17 333	17 333

Figures in Rand	2018	2017

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Free basic water grant	2 717 308	3 142 000
Kalgold township development	-	63 250
Kraaipan grant	387 697	387 697
Sport, Art, Culture and library grant	842 175	107 980
Municipal Infrastructure Grant	4 420 680	11 648 569
	8 367 860	**15 349 496**

Movement during the year

Balance at the beginning of the year	15 349 496	3 743 647
Additions during the year	35 797 317	64 144 003
Income recognition during the year	(42 778 953)	(52 538 154)
	8 367 860	**15 349 496**

16. Provisions

Reconciliation of provisions - 30 June 2018

	Opening Balance	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	1 065 297	72 845	33 131	(35 857)	1 135 416

Reconciliation of provisions - 30 June 2017

	Opening Balance	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	949 831	162 911	18 997	(66 442)	1 065 297

Environmental rehabilitation provision

The council will incur further rehabilitation costs on two dumping/landfill sites. Provision has been made for the net present value of the cost. Sandra Mutangadura (B.Tech Civil Engineering) of One Pangaea Financial, a specialist of waste management consultant has been utilised to determine the valuation of landfils due to his etensive experience within the field of waste management .Their independence from management is monitored. Based on the work provided by One Pangaea Financial, an applicable inflation rate of 6.12% and a discount rate of 9.42% has been utilised. The funding required by the municipality to fund rehabilitation has been assessed and based on the cost of (loss of revenue) investments, the municipality passed the effect of discounting coupled with the future inflation rate to approximate the current cost of the expected rehabilitation costs as disclosed above.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(2 039 000)	(1 411 000)
Non-current liabilities	(1 988 000)	(1 332 000)
Current liabilities	(51 000)	(79 000)
	(2 039 000)	**(1 411 000)**

Net expense recognised in the statement of financial performance

Current service cost	256 000	230 000
Interest cost	131 000	102 000
Actuarial (gains) losses	270 494	24 000
Benefits paid	(29 494)	(27 000)
	628 000	**329 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,81%	9,57%
Expected increase in salaries	6,38 %	7,41 %

A long service award is payable after 10 years of continous service and every 5 years there after to employees. The most recent actuarial valuation of the present value of the defined benefit provision was carried out at 30 June 2018 by TJ Mureriwa and TG Mhonde of One Pangea Financial. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the Projected Unit Credit Method. At year-end 192 employees were eligible for long service awards.

18. Financial instruments disclosure

Categories of financial instruments

30 June 2018

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	2 739 026	2 739 026
Receivables from non-exchange transactions	15 180 569	15 180 569
Cash and cash equivalents	45 107 972	45 107 972
	63 027 567	**63 027 567**

Financial liabilities

	At amortised cost	At cost	Total
Payables from exchange transactions	20 345 945	-	20 345 945
Consumer deposits	-	17 333	17 333
	20 345 945	**17 333**	**20 363 278**

30 June 2017

18. Financial instruments disclosure (continued)

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	1 873 952	1 873 952
Receivables from non-exchange transactions	12 924 814	12 924 814
Cash and cash equivalents	40 160 989	40 160 989
	54 959 755	**54 959 755**

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	18 351 514	-	18 351 514
Payables from exchange transactions	17 745 775	-	17 745 775
Consumer deposits	-	17 333	17 333
	36 097 289	**17 333**	**36 114 622**

19. Service charges

Service charges	607 157	276 254

20. Rental of facilities and equipment

Premises		
Premises	1 441 962	1 183 784
Facilities and equipment		
Rental of facilities	5 178	13 942
Rental of equipment	426 914	1 549
	432 092	**15 491**
	1 874 054	**1 199 275**

Included in the above rentals are operating lease rentals at straight-lined amounts of R 81 851 (Councillors 30 June 2017: R 22 301) as well as contingent rentals of R - (Councillors 30 June 2017: R -).

21. Other revenue

Insurance received	1 658 487	4 950
Other income	442 463	350 422
	2 100 950	**355 372**

The amount included in other revenue arising from exchanges of goods or services are as follows:		
Recoveries	23 190	-
Other income	2 979	25 114
Library income	17 284	14 073
Tender fees	103 382	128 509
Tuition fees	295 628	182 726
	442 463	**350 422**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Investment revenue

Interest revenue		
Bank	99 987	41 186
Interest from investments	3 739 533	4 121 359
	3 839 520	**4 162 545**

23. Property rates

Rates received

Residential	1 656 835	-
Commercial	1 525 654	-
State	11 205 174	-
Property rates	4 134 533	18 098 492
Less: Income forgone	(2 786 656)	(1 889 598)
	15 735 540	**16 208 894**

Figures in Rand	2018	2017

24. Government grants and subsidies

Operating grants		
Equitable share	102 876 000	96 861 000
Expanded public works programme integrated grant	1 997 000	1 433 000
Finance management grant	1 900 000	1 825 000
LG SETA (Discretionery)	-	132 603
LG SETA grant (Mandatory)	204 567	944 400
Community library grant	1 165 805	1 792 720
	108 143 372	**102 988 723**
Capital grants		
Municipal infrastructure grant	37 086 889	46 410 431
	145 230 261	**149 399 154**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	42 153 667	52 538 154
Unconditional grants received	102 876 000	96 861 000
	145 029 667	**149 399 154**

Municipal infrastructure grant

Balance unspent at beginning of year	11 648 569	-
Current-year receipts	29 859 000	58 059 000
Conditions met - transferred to revenue	(37 086 889)	(46 410 431)
	4 420 680	**11 648 569**

Conditions still to be met - remain liabilities (see note 15).

Kraaipan grant

Balance unspent at beginning of year	387 697	387 697

Conditions still to be met - remain liabilities (see note 15).

The grant is provided to provide services and goods on behalf on the Grantor to the community, as such no expenditure or revenue is reconised by the municipality as it is only intermediary.

Free basic water

Balance unspent at beginning of year	3 142 000	3 142 000
Conditions met - transferred to revenue	(424 692)	-
	2 717 308	**3 142 000**

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to provide the water to the community as an agent of the District, as such no expenditure or revenue is recognised on the grant.

Financial management grant

Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

	-	-

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to promote and support reforms in financial management by building capacity to implement the MFMA.

Expanded public works programme

Current-year receipts	1 997 000	1 433 000
Conditions met - transferred to revenue	(1 997 000)	(1 433 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Appointment of workers on the Extended Public Works Programme.

Kalgold township development grant

Balance unspent at beginning of year	63 250	63 250
Conditions met - transferred to revenue	(63 250)	-
	-	**63 250**

Conditions still to be met - remain liabilities (see note 15).

Public contributions and donations.

LG SETA (Discretionary)

Current-year receipts	-	944 400
Conditions met - transferred to revenue	-	(944 400)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

LG SETA (Mandantory)

Current-year receipts	141 317	132 603
Conditions met - transferred to revenue	(141 317)	(132 603)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

Community library grant

Balance unspent at beginning of year	107 980	150 700
Current-year receipts	1 900 000	1 750 000
Conditions met - transferred to revenue	(1 165 805)	(1 792 720)
	842 175	**107 980**

24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to support the municipality with administration of libraries.

Figures in Rand	2018	2017

25. Employee related costs

13th Cheques	-	3 261 649
Acting allowances	785 223	-
Bargaining council contributions	5 777	19 599
Basic	40 505 426	40 951 313
Bonus	3 369 062	-
Housing benefits and allowances	1 113 660	905 982
Leave pay provision charge	303 736	699 974
Long-service awards	268 713	230 000
Medical aid - company contributions	5 264 803	4 222 358
Remote allowance	48 754	-
Overtime payments	556 692	409 192
Pension fund contributions	5 763 366	4 996 267
SDL	488 157	494 506
Telephone allowance	-	30 000
Travel, motor car, accommodation, subsistence and other allowances	48 000	927 710
UIF	357 598	342 719
	58 878 967	**57 491 269**

Remuneration of J Molefe - Acting Municipal Manager

The acting municipal manager has been seconded by the Department of Local Government and Human Settlements, effective from 15 January 2018, and as per the secondment agreement, the municipality does not bear the costs of his remuneration.

Remuneration of MP Lekgetho - Former Acting Municipal Manager

Acting allowance	62 456	-

Remuneration of G Lekomanyane- Former Municipal Manager

Annual Remuneration	-	831 926
Car Allowance	-	270 948
Contribution to medical aid	-	28 134
Contribution to pension funds	-	183 024
Contribution to UIF	-	1 785
Bargaining council and skills	-	9 645
	-	**1 325 462**

Remuneration of GP Mashinyana - Acting Chief Financial Officer

Acting allowance	134 946	-
Subsistance and Travel allowance	2 195	-
Remote allowance	12 357	-
Contributions to UIF and SDL	2 093	-
	151 591	**-**

Remuneration of OP Moroakgomo - Former Acting Chief Financial Officer

Acting allowance	65 171	-

Remuneration of MP Lekgetho- Former Chief Financial Officer

Annual Remuneration	431 838	863 683
Travel, motor car, accomodation and other subsistance allowance	48 000	105 600
Contribution to UIF	892	1 785

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs (continued)

Bargaining council and skills	5 425	9 593
Cell phone allowance	4 800	-
Acting allowance	62 456	-
	553 411	**980 661**

Remuneration C Tjale - Acting Senior Manager: Development and Town Planning

Acting allowance	63 513	-

Remuneration of Matlhoko BJ - Former Acting Senior Manager: Development and Town Planning

Acting allowance	66 957	56 477

Remuneration TN Kopela- Former Senior Manager: Development and Town Planning

Annual Remuneration	-	240 585
Leave pay	-	56 618
Travel, motor car, accomodation and other subsistance allowance	-	184 502
Contributions to pension fund	-	42 547
Contribution to UIF	-	1 041
Bargaining council and skills	-	4 281
	-	**529 574**

Remuneration of JM Mokgosi Acting Senior Manager: Corporate Services

Acting allowance	34 710	70 518

Remuneration of ML Muji Former Acting Senior Manager: Corporate Services

Acting allowance	67 699	-

Remuneration of MC Shomolekae - Acting Senior Manager: Tecnical Services

Acting allowance	63 513	-

Remuneration of PM More - Former Acting Senior Manager: Tecnical Services

Acting allowance	44 597	66 066

Remuneration of Nyathi MP- Former Acting Senior Manager: Technical Services

Acting allowance	-	56 468

26. Remuneration of councillors

Councillors	11 256 108	9 941 242

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

26. Remuneration of councillors (continued)

Remuneration of the Mayor

Annual remuneration	737 931	527 803
Travel, accomodation, subsistence and other allowances	400	125 533
Contributions to UIF, SDL, medical and pension funds	76 172	57 172
Cellular phone and DATA allowance	33 900	21 512
	848 403	**732 020**

Remuneration of the Former Speaker

Annual remuneration	411 880	406 353
Travel, accomodation, subsistence and other allowances	5 137	91 410
Contributions to UIF, SDL, medical and pension funds	27 127	38 091
Cellular phone and DATA allowance	19 100	21 512
	463 244	**557 366**

Remuneration of the new Speaker

Annual remuneration	212 244	-
Travel, accomodation, subsistence and other allowances	2 934	-
Contributions to UIF, SDL, medical and pension funds	2 196	-
Cellular phone and DATA allowance	14 800	-
	232 174	**-**

Remuneration of Members of executive committee

Annual remuneration	2 069 152	1 529 720
Travel, accomodation, subsistence and other allowances	152 201	521 349
Contributions to UIF, SDL, medical and pension funds	110 107	143 260
Cellular phone and DATA allowance	120 800	86 048
	2 452 260	**2 280 377**

Remuneration of the Chairperson Sec 79 MSA

Annual remuneration	374 656	195 100
Travel, accomodation, subsistence and other allowances	38 336	106 220
Contributions to UIF, SDL, medical and pension funds	15 420	29 920
Cellular phone and DATA allowance	33 900	21 512
	462 312	**352 752**

Ward councillors

Annual remuneration	5 437 474	3 577 637
Travel, accomodation, subsistence and other allowances	745 452	1 818 489
Contributions to UIF, SDL, medical and pension funds	327 417	218 484
Cellular phone and DATA allowance	726 700	404 119
	7 237 043	**6 018 729**

Dikgosi

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

26. Remuneration of councillors (continued)

Annual remuneration	312 000	312 000
Travel, accomodation, subsistence and other allowances	6 893	1 332
Contributions to UIF	3 120	3 120
	322 013	**316 452**

In-kind benefits

The Mayor, Speaker and full-time councilors are provided with office space.

The remuneration of the political office-bearers and councilors are above the upper limits as determined by the framework.

The Mayor and Speaker each have the use of council owned vehicles for official duties.

The Mayor and Speaker have the support of personal assistants.

27. Depreciation and amortisation

Property, plant and equipment	11 368 259	11 099 736
Intangible assets	-	274 595
	11 368 259	**11 374 331**

28. Finance costs

Bank	934 296	2 348 158

29. Debt impairment

Debt impairment	-	1 377 670
Contributions to debt impairment provision	2 610 264	-
	2 610 264	**1 377 670**

30. Contracted services

Security Services	6 277 671	6 062 375

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. General expenses

Accomodation and meals	2 520 785	1 725 970
Advertising	602 714	560 439
Auditors remuneration	2 881 208	1 541 718
Bank charges	130 189	94 916
Billing charges	-	375 725
Bursary	140 695	-
Catering	355 567	254 772
Cleaning	19 884	269 169
Community development and training	7 493	498 893
Conferences and seminars	30 765	273 751
Consulting and professional fees	9 359 265	2 558 198
Consumables	-	6 868
Donations	305	24 350
Electricity	6 680 644	5 709 851
Incorporation costs	-	94 413
Exhibitions	-	146 480
FMG expense	-	2 503 076
Fleet	105 848	298 418
Fuel and oil	1 435 963	1 482 261
IDP	2 718	122 587
IT expenses	155 682	1 682 983
Insurance	2 366 722	2 457 934
MSIG expense	-	71 053
Mayoral imbizo	-	320 975
Staff welfare	50 493	286 693
Membership fees	688 555	532 157
Motor vehicle expenses	174 530	95 303
Other expenses	1 964	741 157
PMU costs	933 158	1 070 249
Transport and freight	108 542	9 800
Pest control	69 133	1 221 082
Printing and stationery	1 162 967	2 274 202
Public awareness	227 265	74 692
Public particiation	-	189 429
Public safety	-	63 900
Repairs and maintenance	7 770 324	5 792 027
Stipends and internships	3 662 148	2 767 682
Subscriptions and membership fees	8 000	6 492
Support LED projects	-	111 154
Telecentre support	239 651	125 226
Telephone and fax	3 748 657	2 742 361
Tourism development	-	97 650
Training	609 311	2 303 586
Uniforms	29 982	-
	46 281 127	**43 579 642**

32. Fair value adjustments

Investment property (Fair value model)	1 200 000	510 000

33. Auditors' remuneration

Fees	2 881 208	1 541 718

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Cash generated from operations

Surplus	35 147 750	44 227 014
Adjustments for:		
Depreciation and amortisation	11 368 259	11 408 780
(Gain)/ loss on sale of assets and liabilities	62 815	20 388
Fair value adjustments	(1 200 000)	(510 000)
Debt impairment	2 610 264	1 377 670
Movements in operating lease assets and accruals	(3 022)	(2 324)
Movements in retirement benefit assets and liabilities	628 000	329 000
Movements in provisions	70 119	115 466
Changes in working capital:		
Inventories	39 213	137 878
Receivables from exchange transactions	(3 475 338)	(1 856 668)
Receivables from non-exchange transactions	(2 279 005)	(2 293 919)
Payables from exchange transactions	2 593 351	17 745 774
VAT	12 067 829	(11 092 177)
Unspent conditional grants and receipts	(6 981 636)	11 605 849
Consumer deposits	-	14 612
Payables from non-exchange transactions	-	(13 948 267)
	50 648 599	**57 279 076**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	128 124 577	95 907 953
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	10 459 000	2 592 000
Total capital commitments		
Already contracted for but not provided for	128 124 577	95 907 953
Not yet contracted for and authorised by accounting officers	10 459 000	2 592 000
	138 583 577	**98 499 953**

This committed expenditure relates to plant and equipment and will be financed by available bank balances, retained surpluses, gorvernment grant funds, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	319 608

Prior year commitments value as disclosed has been restated.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Contingencies

Litigation against Ratlou Local Municipality (RLM)

Kebothale Trading vs RLM - Kebothale Trading has instituted legal actions against RLM for the loss of income due to illegal parking The matter is still pending	742 960	742 960
BANTUBANYE SKILLS vs RLM - Legal actions have been instituted against the municipality for failure to pay applicant for services rendered	104 712	-
T-SQUAIRE ENGINEERS vs RLM - T-Squaire had obtained a default judgement against the Municipality were attachment processes were underway	438 351	-
SHARON'S MAINTENANCE AND ELECTRICATION vs RLM - Claims that the municipality failed to pay the outstanding amount for the service rendered by Sharons maintenance for water reservoir in Logageng village	2 227 898	-
KEGOMODITSWE MOKALENG vs RLM - A former employee is suing the municipality for an unfair dismissal	110 580	-
	3 624 501	**742 960**

Litigation for Ratlou Local Municipality

The municipality obtained an order of eviction and successfully attached and removed the properties of the tenants. The sheriff has since passed away and we are in the of lodging a claim against the estate for the money recovered from the auction	-	150 000
The municipality is suing Lizmore for the recovery of the outstanding rental and eviction	-	250 000
	-	**400 000**

37. Related parties

Relationships	
Councillors	Refer to note 26
Members of key management	Refer to note 25
Employees and organisations in which they have direct or indirect material interest	Refer to related party transactions below

Related party transactions

Payments to family members of persons in service of the municipality

Khuduga Steel and Brick Work	23 500	195 000
Refilwe Botsalano Trading & Enterprise	42 250	56 790
Tumagotlhe Building Construction and Transport	6 000	192 002
Tumisang and Keletso Trading	-	4 750
Striving mind 262	27 430	27 050
Ihlosi Enterprise	-	14 175
Pabala Construction	-	196 563
Ga Rona Services	24 536	8 625
Masego arona projects	-	14 665
Gomolemo Comprehensive	17 000	6 800
Kutlwano Kgolo	10 125	-
Lots trading enterprise	4 000	-

38. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

38. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	20 345 945	-	-	-

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	18 351 514	-	-	-
Trade and other payables	17 745 775	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	30 June 2018	30 June 2017
Receivables from exchange transactions	2 739 026	1 873 952
Receivables from non-exchange transactions	15 180 569	12 924 814
Cash and cash equivalents	45 107 972	40 160 989

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

39. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 394 721 567 and that the municipality's total assets exceed its liabilities by R 394 721 567.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

40. Events after the reporting date

No material subsequent events were identified.

41. Unauthorised expenditure

Opening Balance	32 036 054	28 323 519
Incurred during the year	-	3 712 535
	32 036 054	**32 036 054**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

42. Fruitless and wasteful expenditure

Opening balance	449 552	199 692
Fruitless and wasteful expenditure incurred	359 070	249 860
	808 622	**449 552**

Details of Fruitless and Wasteful Expenditure- current year

Interest charged on outstanding creditors invoices	249 860	53 779
Reconnection fees	1 904	83 425
SARS VAT interest & penalties (2015/12 - 2017/06)	107 306	112 656
	359 070	**249 860**

Analysis of expenditure under investigation and still awaiting condonation per age classification

Current year	359 070	249 860
Prior years	449 552	199 692
	808 622	**449 552**

43. Irregular expenditure

Opening balance	77 319 603	65 269 759
Add: Irregular Expenditure - current year	31 786 204	12 049 844
	109 105 807	**77 319 603**

Analysis of expenditure under investigation and still awaiting condonation per age classification

Current year	31 786 204	12 049 844
Prior years	77 319 603	65 269 759
	109 105 807	**77 319 603**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Contravetion of MFMA Section 116(3)	None, as the investigation is in-progress	2 467 231
Did not follow competitive bidding process	None, as the investigation is in-progress	6 150 680
Did not follow MSCMR 12(1)(c)	None, as the investigation is in-progress	662 441
Expenditure exceeds contract value	None, as the investigation is in-progress	8 068 474
Expenditure exceeds the allowed 15% of variation orders for Infrastructure projects	None, as the investigation is in-progress	76 968
Bidder did not disclose on the MBD 4 that they are in service of the state	None, as the investigation is in-progress	73 416
Provision of insurance services - Contravetion of MFMA Section 116(3)	None, as the investigation is in-progress	272 601
Provision of legal services - Contravetion of MFMA Section 116(3)	None, as the investigation is in-progress	1 078 056
Repairs and maitenance of flood lights and highmast lights	None, as the investigation is in-progress	4 250 575
Supplier appointed for maintenance however the supplier constructed the roads.	None, as the investigation is in-progress	5 373 922
There was no variation order approved by the Municipal Manager	None, as the investigation is in-progress	595 257
Variation order approved was not justifable		2 716 583
		31 786 204

Figures in Rand	2018	2017

43. Irregular expenditure (continued)

Details of irregular expenditure- prior year

Awards to supplier that was not tax compliant	14 670
Three qoutations were not obtained	4 050
Director of the company is in the service of the state	538 209
Expenditure incurred on the contract exceeds the original contract amount	5 425 134
Evaluation criteria appiled differed from the original specification	1 915
Appointed suppler not registered on CSD	35 823
Split of transaction to a lesser value to avoid SCM requirements	47 563
Supplier appointed for maintenance however the supplier constructed the roads	5 982 480
	12 049 844

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2018	2017
Current year subscription / fee	688 555	596 657
Amount paid - current year	(688 555)	(596 657)
	-	-

Material losses through criminal conduct

There are no material losses that were incurred by the municipality

Audit fees

	2018	2017
Current year subscription / fee	2 866 167	1 541 718
Amount paid - current year	(2 866 167)	(1 541 718)
	-	-

PAYE and UIF

	2018	2017
Current year subscription / fee	10 052 514	9 980 563
Amount paid - current year	(10 052 514)	(9 980 563)
	-	-

Pension and Medical Aid Deductions

	2018	2017
Current year subscription / fee	11 603 294	9 870 597
Amount paid - current year	(11 603 294)	(9 870 597)
	-	-

VAT

	2018	2017
VAT receivable	8 343 845	20 411 674

VAT output payables and VAT input receivables are shown in note 8.

Figures in Rand	2018	2017

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Emergency	17 205	-
Sole Supplier	88 470	14 100
Impractical or impossible to follow procurement process	769 628	1 424 077
	875 303	**1 438 177**

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Operating expenditures were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

46. Budget differences

Material differences between budget and actual amounts

46.1 The item is budgetted under rental of facilities

46.2 The municipality billed more electricity due to an increase in consumption than anticipated

46.3 The municipality didn't budget for this item as it doesn't receive much

46.4 The item is budgeted under other income

46.5 The municipality received more insurance proceeds due to a high value insurance claim (burned library)

46.6 The variance was due a decrease in the interest rate

46.7 The variance was due to an increase in the revenue forgone

46.8 The municipality utilised most of its grants

46.9 The municipality issued more traffic fines than anticipated

46.10 Other employees left the municipality during the year

46.11 The difference is immaterial

46.12 The difference is immaterial

46.13 The municipality paid most suppliers within 30 days, thus leading less/no interest charge

46.14 The municipality's debt recovery improved in the current year

46.15 The municipality underbudgeted for the repairs

46.16 The budget for contracted services included other expense relating to general expenses

46.17 Certain expenses in general expenses were budgeted for under contracted services

46.18 Expense relating to Transfer payments is disclosed under personnel and general expenses

46.19 Loss on disposal asset budget relates to grants revenue and was accidental disclosed as loss on disposal of asset

46.20 The municipality did not budget for the fair value adjustment

46.21 The municipality did not budget for the actuarial losses

47. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors

Error 1 - Input VAT incorrently claimed in 2017 WIP additions (Hall construction)

During the period under review it was noted the 2017 Input VAT was incorrectly claimed on the WIP addition, as a result Community assets WIP additions was understated and VAT receivable overstated. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Property plant & equipment - Community assets (WIP additions)	-	31 404
Decrease in VAT receivable	-	(31 404)
	-	-

Figures in Rand	2018	2017

47. Prior period errors (continued)

Error 2 - Understatement of Cash and cash equivalents

During the period under review it was noted that uncashed cheques were recorded as payments in the cashbook and formed part of reconciling differences between the cashbook and the bank statement. However, these were not presented for payment and are state. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Cash and cash equivalents - Bank balance	-	5 724

Statement of Financial performance:		
Decrease in General expenses - Training expense	-	(3 000)
Decrease in General expenses - Accomodation and meals	-	(2 724)
	-	**(5 724)**

Error 3 - Understatement of Road Infrastructure additions

During the period under review it was noted that the additions costs for the construction of gravel roads was expensed. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Property plant & equipment - Infrastructure assets (WIP additions)	-	7 074 642

Statement of Financial performance:		
Decrease in Repairs and maintenance	-	(7 074 642)

Error 4 - Project retentions cost understated

Statement of financial postion:		
Increase in Property plant & equipment - Infrastructure assets additions	-	64 400
Increase in payables from exchange transactions - Retention creditor	-	(64 400)
	-	-

Error 5 - Understatement of Eskom creditor

During the period under review it was noted that some of eskom invoices were not raised in the GL. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Payables from exchange transactions - Trade payables	-	(392 689)
Increase in VAT receivable	-	39 762
	-	**(352 927)**

Statement of financial performance:		
Increase in General expenses - electricity	-	352 644
Increase in finance costs	-	283
	-	**352 927**

Error 6 - Understatement of retention liability upon pay-out

Figures in Rand	2018	2017

47. Prior period errors (continued)

During the period under review it was noted that the retention liability was understated upon pay-out when the retention was reduced with an amount inclusive of VAT while the retention withheld in the register was exclusive of VAT. Therefore, the retention liability was understated by the VAT amount. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Increase in VAT receivable	-	49 123
Increase in Payables from exchange transactions - Retention liability	-	(49 123)
	-	-

Error 7 - Understatement of retention liability raised

During the period under review it was noted that the retention liability raised on the maintenance of Mathateng village gravel road was understated in the register. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Increase in Property plant and equipment - Infrastructure asset additions cost (WIP)	-	76 532
Increase in Payables from exchange transactions - retentions liability	-	(76 532)
	-	-

Error 8 - Overstatement of input VAT on a passanger vehicle

During the period under review it was noted that Input VAT was incorrectly claimed on a passanger motor vehicle, thus the additions cost and depreciation was understated and the input VAT overstated. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Increase in property plant and equipments - Motor vehicle cost additions	-	95 285
Decrease in Vat receivable	-	(95 285)
Increase in property plant and equipments - Motor vehicle accumulated depreciation additions	-	(21 843)
	-	**(21 843)**

	2018	2017
Statement of Financial performance:		
Increade in depreciation and amortisation	-	21 843

Error 9 - Overstatement of WIP infrastructure due to unaccounted Input VAT

During the period under review it was noted that the infrastructure WIP additions for the 2017 financial year were overstated the Input VAT amount that was included in the additions cost the the year. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Increase in VAT receivable	-	593 831
Decrease in Property plant and equipment - Infrastructure cost additions	-	(593 831)
	-	-

Error 10 - Prior period error - understatement of Cost of Vehicle acquisition upon trade-in

During the period under review it was noted that the additions were under stated by the trade-in value difference on the vehicle cost. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Figures in Rand	2018	2017

47. Prior period errors (continued)

Statement of financial postion:		
Increase in Property plant and equipment - Motor vehicle cost additions	-	67 421

Statement of financial performance:		
Increase in profit on sale of asset	-	(67 421)

Error 11 - Prior period error - Misstatement in Retention creditor and PPE infrastructure (WIP)

During the period under review it was noted that the working property plant and equipment infrastructure WIP additions and the retention creditors have been incorrectly disclosed due error in the registers. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in property plant and equipment - Infrastructure cost (WIP)	-	53 003
Increase in payables from exchange transactions - Retention	-	(53 003)
	-	**-**

Error 12 - Understatement of Trade payables (Compensation commissioner)

During the period under review it was noted that the trade payables were understatd by an unpaid invoice for the compensation commissioner that was outstanding at year end. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in payables from exchange transactions - trade payables	-	(375 725)

Statement of Financial performance:		
Increase in general expenditure - Compensation commissioner	-	375 725

Error 13 - Misstatement of Community Assets costs

During the period under review it was noted that the retention creditor on the community assets additions of the prior years were not accounted for, thus understating the PPE costs and the retention creditor. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in property plant and equipment - Community assets cost (WIP)	-	293 439
Increase in payables from echange transactions - Retention	-	(293 439)
	-	**-**

Error 14 - Operating lease asset

During the period under review it was noted that the straightlining of lease income was not applied as per GRAP 13 requirements. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Operating lease asset	-	3 205
Increase in Accumulated surplus/deficit	-	(881)
	-	**2 324**

Statement of financial performance:		
Increase Rental of facilities and equipment	-	2 324

Figures in Rand	2018	2017

47. Prior period errors (continued)

Error 15 - Understatement of depreciation expense

During the period under review it was noted the depreciation expense for the prior year was understated due to the PPE retention cost that was not capitalised witht the prio year additions. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Property plant and equipment - Infranstructure (Accumulated depreciation-additions)	-	(4 383)
Statement of financial performance:		
Increase in Depreciation and amortisation	-	4 383

Error 16 - Mistatement depreciaton expense and the accumulated thereof

During the period under review it was noted that the depreciation expense and the accummulated depreciation was understated due to an ommision of the retention cost in the prior year. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Property plant and equipment - Community assets accummulated depreciation	-	(14 478)
Decrease in Accumulated surplus	-	6 253
	-	**(8 225)**
Statement of financial performance:		
Increase in depreciation and amortisation	-	8 225

48. Regulation 45 disclosures: Related parties to officials in service of the state

Batsatsing Consulting - C Makoata - Spouse	30 000	318 180
GT Nthwane - C Nthwane - Child	-	38 000
Compu-cell - M Shaikhnag - Child	267 300	477 180
Rediko Enterprise - S Monchusi - Wife	2 505 157	1 985 312
O.V.S Construction and Maintenance - T Sereo - Wife	345 600	328 800
Altimax (Pty) Ltd - E Verryne Joubert - Husband	1 268 697	120 000
Tshaba Motho Transport - K.P. Madito - Wife	21 600	-
	4 438 354	**3 267 472**